

DIRECT TESTIMONY

OF

BILL L. VOSS

ACCOUNTING DEPARTMENT

FINANCIAL ANALYSIS DIVISION

ILLINOIS COMMERCE COMMISSION

AMERITECH ILLINOIS
DOCKET NOS. 98-0252/0335 (CONSOL.)

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TABLE OF CONTENTS

Witness Identification.....	1
Description of Testimony.....	2
Revenue Requirement	6
Revenue Requirement Schedules	8
Interest Synchronization.....	12
Uncollectible Expense	13
Year 2000 Operating Revenues	14
Gross Receipts Taxes	16
Conclusion	18

1 WITNESS IDENTIFICATION

2 **Q. Please state your name and business address.**

3 A. My name is Bill L. Voss. My business address is 527 East Capitol Avenue,
4 Springfield, Illinois 62701.

5 **Q. By whom are you employed and in what capacity?**

6 A. I am an Accounting Supervisor in the Accounting Department of the Financial
7 Analysis Division of the Illinois Commerce Commission.

8 **Q. Please describe your background.**

9 A. I joined the Staff of the Illinois Commerce Commission ("Staff") in March 1989. I am
10 a Certified Public Accountant licensed to practice in Illinois. My prior accounting
11 experience includes three years as an accounting supervisor for a telephone utility
12 and five years as the corporate controller of a small business. I hold a Master of
13 Accounting Science degree from the University of Illinois at Urbana-Champaign.

14 **Q. What is the function of the Accounting Department of the Illinois Commerce**
15 **Commission?**

16 A. The Department's function is to monitor the financial condition of public utilities as
17 part of the Commission's responsibilities under Article IV of the Public Utilities Act
18 and to provide accounting expertise on matters before the Commission.

19 **Q. Have you previously testified before this Commission?**

20 A. Yes, I have.

21 **Q. What are your responsibilities in this case?**

22 A. The Director of the Accounting Department of the Illinois Commerce Commission
23 assigned me to this case and defined the scope of my responsibilities. In this
24 proceeding, my responsibilities include reviewing the testimony and documents
25 provided by Ameritech Illinois ("AI" or "Company"), analyzing the underlying data,
26 preparing the revenue requirement, and proposing adjustments when appropriate.

27 DESCRIPTION OF TESTIMONY

28 **Q. What is the purpose of your testimony in this proceeding?**

29 A. The purpose of my testimony is to present the Staff revenue requirement and to
30 present adjustments to the Company's operating statement.

31 **Q. Are you sponsoring any schedules as part of Staff Exhibit 5.0?**

32 A. Yes. I have prepared the following schedules:

33	Schedule 5.01	Statement of Operating Income with Adjustments
34	Schedule 5.02	Adjustments to Operating Income
35	Schedule 5.03	Rate Base
36	Schedule 5.04	Adjustments to Rate Base
37	Schedule 5.05	Gross Revenue Conversion Factor
38	Schedule 5.06	Interest Synchronization
39	Schedule 5.07	Uncollectible Expense
40	Schedule 5.08	Uncollectible Expense for "Intrastate Known Changes"
41	Schedule 5.09	Annualized Increased Revenues in the Year 2000
42	Schedule 5.10	Gross Receipts Taxes

43 **Q. Are you sponsoring any attachments as part of Staff Exhibit 5.0?**

44 A. Yes, I am sponsoring the following attachments:

45 Attachment 5.01 is a one-page workpaper entitled "Uncollectible
46 based on 1999 actual" showing the calculation of its 1999
47 uncollectible percentage. AI provided this workpaper as "Attachment
48 2" to its response to Staff Data Request BLV-013.

Attachment 5.02 is the two-page AI response to Staff Data Request BLV-024. This AI response pertains to the adjustment to the estimate of the allowance for doubtful accounts.

Attachment 5.03 is the two-page AI response to Staff Data Request BLV-025. This AI response contains a description of the monthly activity in Account 5301, entitled "UNCOLLECTIBLE REVN-TELECOMMUN."

Attachment 5.04 is the four-page AI response to Staff Data Request BLV-031. This AI response provides information pertaining to AI's revenues for the first nine months of the year 2000 and for the first nine months of the years 1996 through 1999.

Attachment 5.05 consists of four pages of AI responses to questions concerning interest synchronization. Page 1 is the AI response to Staff Data Request SDR-036. Page 2 is the October, 19, 2000, AI response to a verbal request for additional information pertaining to SDR-036. Page 3 is the October 25, 2000, AI response to a verbal follow-up request for a calculation of the intrastate amount of the 1999 interest expense that was provided on page 2. Page 4 is the October 26, 2000, AI response to an additional verbal follow-up request for a

68 calculation of the intrastate amount of the 1999 interest expense after
69 removing the interest expense attributable to non-regulated
70 operations.

71 Attachment 5.06 is the five-page AI response to Staff Data Request
72 BLV-033. Attachment 5.06 contains the “Illinois Bell—State
73 Separations Report” for the period “01/2000 thru 07/2000.”

74 Attachment 5.07 is the one-page AI response to Staff Data Request
75 SDR-059. Attachment 5.07 contains a worksheet entitled “Taxes
76 Other than Income Taxes, Schedule C-20.”

77 Attachment 5.08 is the three-page AI response to Staff Data Request
78 BLV-030. Attachment 5.08 shows the AI accounting treatment of
79 taxes other than income taxes.

80 Attachment 5.09 is the four-page portion of the AI response to Staff
81 Data Request BLV-004 labeled by AI as “Exhibit 2.” Attachment 5.09
82 contains the “Illinois Bell / State Separations Report” for the period
83 “01/1999 thru 12/1999.”

84 Attachment 5.10 is the one-page AI response to a verbal follow-up
85 request pertaining to the AI response to Staff Data Request SDR-

86 059. Attachment 5.10 contains the non-regulated factors and
87 intrastate factors for taxes other than income taxes.

88 **Q. Please describe the organization of your direct testimony.**

89 A. First, I present, in narrative testimony, the revenue requirement and then a
90 discussion of my adjustments to the Company's operating statement. My schedules
91 follow the narrative testimony. The attachments, which are referenced in my
92 narrative testimony, follow my schedules.

93 REVENUE REQUIREMENT

94 **Q. For what purpose did you calculate a revenue requirement in this**
95 **proceeding?**

96 A. I calculated a revenue requirement in this proceeding to be used in determining
97 rates if the Commission decides to re-initialize the rates of Ameritech Illinois or if
98 the Commission decides to return Ameritech Illinois to rate of return regulation.

99 **Q. Please explain the development of the revenue requirement.**

100 A. The revenue requirement that I developed is based upon a historical test year
101 ending December 31, 1999. This revenue requirement takes the information

provided by AI on Ameritech Illinois Exhibit 7.0, Schedules 1 and 2, and applies the Staff adjustments and the Staff overall rate of return to create a test year revenue requirement for AI's intrastate operations.

Q. Are there any areas that were not evaluated in determining the revenue requirement?

A. Yes. The area of merger savings was not addressed in this revenue requirement. Merger savings are being evaluated by independent consultants. The treatment of merger savings identified by the independent consultants is best addressed in subsequent proceedings before the Commission.

Q. What is the amount of the Staff test year revenue requirement for intrastate operating revenues?

A. The amount of the Staff test year intrastate operating revenues is \$2,336,015,000. This amount is a reduction of \$717,831,000 from AI's actual intrastate operating revenues for the 1999 test year. This information is presented on Staff Exhibit 5.0, Schedule 5.01.

117 REVENUE REQUIREMENT SCHEDULES

118 **Q. Please describe Staff Exhibit 5.0, Schedule 5.01, “Statement of Operating**
119 **Income with Adjustments.”**

120 A. Schedule 5.01 derives the required revenue at the Staff proposed overall rate of
121 return. Column b presents the Company’s proposed operating statement at present
122 rates for the test year as reflected on Ameritech Illinois Exhibit 7.0, Schedule 1, in
123 column M. Column c reflects the total of all Staff adjustments shown on Staff Exhibit
124 5.0, Schedule 5.02. Column d reflects the operating statement with Staff
125 adjustments at present rates per Staff. Column e is the necessary change in the
126 Staff’s test year revenues to arrive at Staff’s computed revenue requirement as
127 reflected in column f. The difference between AI’s test year revenues in column b
128 and the required revenues as determined by Staff in column f is presented in column
129 g, line 1. The percentage of the Staff proposed revenue change is calculated in
130 column g at line 24. Net Operating Income in column f, line 21, is the product of the
131 Staff Rate Base, line 22, and the Staff Overall Rate of Return, line 23.

132 **Q. Please describe Staff Exhibit 5.0, Schedule 5.02, “Adjustments to Operating**
133 **Income.”**

134 A. Schedule 5.02 is a two-page schedule that identifies Staff’s adjustments to
135 Operating Income. The source of each adjustment is shown in the heading of each

column. Column k on page 2 is carried forward to Staff Exhibit 5.0, Schedule 5.01,
column c.

Q. Please describe Staff Exhibit 5.0, Schedule 5.03, “Rate Base.”

A. Schedule 5.03 compiles Staff’s rate base. Column b reflects the Company’s test
year rate base from Ameritech Illinois Exhibit 7.0, Schedule 2. Column c
summarizes Staff’s adjustment to rate base. Column d is the net of columns b and
c; column d presents Staff’s computed rate base.

**Q. Please describe Staff Exhibit 5.0, Schedule 5.04, “Adjustments to Rate
Base.”**

A. Schedule 5.04 identifies Staff’s adjustments to rate base. The source of each
adjustment is shown in the heading of each column. Column k is carried forward to
Staff Exhibit 5.0, Schedule 5.03, column c.

**Q. Please describe Staff Exhibit 5.0, Schedule 5.05, “Gross Revenue
Conversion Factor.”**

A. Schedule 5.05 is a two-page schedule that presents the calculation by Staff of the
gross revenue conversion factor (“GRCF”). Page 1 shows the calculation of the
GRCF including and excluding bad debt expense. Page 2 shows the development

of the AI and the Staff uncollectible percentages. Page 2 also shows the calculation of AI's total company uncollectible percentage for the period January 2000 through September 2000.

Q. Describe the calculations of the AI and the Staff uncollectible percentages on page 2.

A. Column b presents the AI calculation of its uncollectible percentage of 2.28% using the Company's test year intrastate uncollectible expense of \$70,192,000. AI provided its calculation of the 2.28% uncollectible percentage on a one-page workpaper included with its response to Staff Data Request BLV-013 [Attachment 5.01]. Column c presents the Staff calculation of its 1.67% uncollectible percentage. The Staff calculation uses a test year intrastate uncollectible expense of \$51,507,000. The \$18,685,000 intrastate difference between AI uncollectible expense and the Staff uncollectible expense is attributable to the October 1999 AI adjustment to uncollectible revenues.

Q. Why should the increase in uncollectible expense resulting from the Company's October 1999 adjustment be excluded from the calculation of the uncollectible percentage?

A. The October 1999 adjustment is a one-time occurrence; the effects of this one-time adjustment should not effect the revenue requirement. According to the AI response

to Staff Data Request BLV-024 [Attachment 5.02], the total company amount of the October 1999 adjustment was \$20,579,000, and the intrastate amount was \$18,685,000. AI, in its response to Staff Data Request BLV-025 [Attachment 5.03] provided the following description of the October 1999 adjustment: "The \$ 20.5 mil activity was attributable to the adjustment to Ameritech Illinois's reserve for doubtful accounts to conform with SBC's accounting policy."

Q. What was the Company's uncollectible percentage for the first nine months of the year 2000?

A. During the first nine months of the year 2000, the AI uncollectible percentage was 1.16%. The calculation of this percentage is presented in columns d and e on page 2 of Schedule 5.05. The amounts presented in column e are taken from the AI response to Staff Data Request BLV-031 [Attachment 5.04].

Q. Why is it appropriate to use the Staff-calculated test year uncollectible percentage of 1.67%?

A. The Staff-calculated test year uncollectible percentage of 1.67% is not calculated using the Company's 1999 uncollectible expense, which included an increase resulting from a one-time adjustment attributable to the merger of Ameritech Corporation and SBC. Furthermore, the Company's uncollectible experience in the

first nine months of the year 2000 shows that a lower uncollectible percentage is appropriate.

INTEREST SYNCHRONIZATION

Q. Please explain Staff Exhibit 5.0 , Schedule 5.06, “Interest Synchronization.”

A. Schedule 5.06 computes the interest component of revenue requirement. The synchronized interest expense is computed by multiplying the rate base by weighted cost of debt. The synchronized interest expense is then compared to the interest expense used by the Company in its computation of test year income tax expense. The tax effect of the difference between the interest expenses is the adjustment for interest synchronization. The adjustment for interest synchronization ensures that the revenue requirement reflects the tax savings generated by the interest component of revenue requirement.

Q. How did you determine the Company’s amount of interest expense?

A. AI provided this information through follow-up requests for information pertaining to the AI response to Staff Data Request SDR-036 [Attachment 5.05]. Attachment 5.05 presents four pages of information pertinent to the development of the Company’s intrastate interest expense. The Company Interest Expense on line 4 of Schedule 5.06 is taken from page 4 of Attachment 5.05.

208 UNCOLLECTIBLE EXPENSE

209 **Q. In your discussion of the Gross Revenue Conversion Factor, you discussed**
210 **a reduced test year uncollectible percentage. Are you also proposing an**
211 **adjustment to AI's uncollectible expense?**

212 A. Yes. For the reasons that I previously discussed, I am proposing that AI's intrastate
213 uncollectible expense be reduced by \$18,685,000. This adjustment is presented on
214 Schedule 5.07, entitled "Uncollectible Expense."

215 **Q. Do you have an additional adjustment pertaining to uncollectible expense?**

216 A. Yes. AI made four adjustments to test year revenues for "intrastate known changes"
217 on Ameritech Illinois Exhibit 7.0, Schedule 1, in columns I through L. Each of these
218 adjustments also adjusted uncollectible revenues using the Company's 2.28%
219 uncollectible rate. The appropriate uncollectible rate is the Staff-proposed rate of
220 1.67% calculated on page 2 of Schedule 5.05. Schedule 5.08, entitled
221 "Uncollectible Expense for 'Intrastate Known Changes,'" presents the Staff
222 adjustment to the test year uncollectible expense attributable to the four "intrastate
223 known changes."

224 YEAR 2000 OPERATING REVENUES

225 **Q. Did you review the Company's revenues during the first nine months of the**
226 **year 2000?**

227 A. Yes. I found that AI's revenues for the first nine months of 2000 had increased
228 significantly from its revenues for the first nine months of 1999.

229 **Q. Has AI adjusted its revenues for events beyond the test year?**

230 A. Yes. AI has adjusted its revenues for four "intrastate known changes" on Ameritech
231 Illinois Exhibit 7.0, Schedule 1, in columns I through L. AI reduced its operating
232 revenues by a total of \$25,250,000 for these four "intrastate known changes":

233 ?? 1999 Price Cap;
234 ?? Other 1999;
235 ?? 2000 Changes; and
236 ?? 2000 Price Cap.

237 **Q. What is the amount of the Company's growth in operating revenues**
238 **between the first nine months of 1999 and the first nine months of 2000?**

239 A. AI's intrastate operating revenues were \$218,205,000 greater in the first nine
240 months of 2000 than the first nine months of 1999. Schedule 5.09, entitled
241 "Annualized Increased Revenues in the Year 2000," shows the calculation of this

amount on page 2. AI provided the revenue amounts used in columns b and c on page 2 in its response to Staff Data Request BLV-031 [Attachment 5.04]. The intrastate factors used in column e on page 2 are taken from the State Separations Reports provided by AI for the periods "01/1999 thru 12/1999" and "01/2000 thru 07/2000." These State Separations Reports are included as Attachment 5.09 and Attachment 5.06, respectively. AI, in its response to Staff Data Request BLV-033 [Attachment 5.06], stated: "The state separations report through September 30, 2000 will not be available until the later part of November, 2000 because there is processing lag in the development of this information."

Q. What is the annualized amount of the \$218,205,000 revenue increase?

A. The annualized amount of this revenue increase is \$290,940,000. The calculation of this amount is shown on page 1 of Schedule 5.09.

Q. Is it appropriate to adjust AI's operating revenues for this revenue growth?

A. Yes. AI has adjusted its operating revenues for revenue decreases. My adjustment changes operating revenues for annualized revenue growth based upon actual revenues for the first nine months of 2000. My adjustment is presented on Schedule 5.09.

259 **Q. Have AI's expenses increased during the first nine months of 2000 when**
260 **compared to the first nine months of 1999?**

261 A. No. AI's operating expenses have decreased in 2000. AI's total expenses at the
262 total company level for Accounts 6110 through 6999 have decreased by more than
263 4% for the first nine months of 2000 when compared to the first nine months of
264 1999.

265 **Q. Are you proposing an adjustment for AI's reduced expenses?**

266 A. No. Many of these expense reductions may be attributable to merger savings. As I
267 discussed earlier, the area of merger savings is not addressed in this revenue
268 requirement. Merger savings are being evaluated by independent consultants. The
269 treatment of merger savings identified by the independent consultants will be best
270 addressed in subsequent proceedings before the Commission.

271 GROSS RECEIPTS TAXES

272 **Q. Did the Company include revenues and expenses pertaining to gross**
273 **receipts taxes in the calculation of its operating income?**

274 A. Yes, the Company included both revenues and expenses for certain gross receipts
275 taxes in its operating statement presented as Ameritech Illinois Exhibit 7.0,

Schedule 1. The revenues and expenses attributable to municipal utility taxes, the Illinois Public Utility Fund, and Illinois Infrastructure Maintenance Fees are shown on the AI response to Staff Data Request SDR-059 [Attachment 5.07]. The AI response to Staff Data Request BLV-030 [Attachment 5.08] shows that these taxes are included in both revenue and expense accounts.

Q. Should test year revenues and expenses include revenues and expenses attributable to gross receipts taxes?

A. No. These gross receipts taxes are calculated as a specific percentage of certain elements of a customer's bill. If the expenses for these gross receipts taxes were included in test year expenses, the customer would pay for these gross receipts taxes twice—once for the expense included in the test year revenue requirement and once for the tax amount calculated on the customer's bill. To eliminate this double payment, the revenues and expenses attributable to these gross receipts taxes should be removed from the revenue requirement.

Q. What is the 3% collection fee?

A. The Company is allowed to assess a 3% collection fee on its municipal utility taxes. The Company collects this fee as an additional revenue for the municipal utility taxes. This additional revenue is not remitted to the municipalities. Instead, this revenue is intended to reimburse the Company for expenses related to the

collection and disbursement of the municipal utility taxes. This reimbursement credit should be included in the revenue requirement because the expenses related to the collection and disbursement of the municipal utility taxes are included in the revenue requirement.

Q. Please explain Staff Exhibit 5.0, Schedule 5.10, “Gross Receipts Taxes.”

A. Schedule 5.10 is a two-page schedule that presents the adjustment for gross receipts taxes. Page 1 presents the adjustments to operating revenues, other operating taxes, and corporate operations expense. Page 2 presents the calculation of the adjustment amounts. In column b, the total company revenues and expenses attributable to the gross receipts taxes are taken from the AI response to Staff Data Request SDR-059 [Attachment 5.07]. The non-regulated factors in column c and the intrastate factors in column f are taken from the AI response to a verbal follow-up request pertaining to the AI response to Staff Data Request SDR-059 [Attachment 5.10]. The intrastate amounts are calculated in column g. The 3% collection fee is calculated on line 14.

CONCLUSION

Q. Does this conclude your Direct Testimony?

A. Yes, it does.